

REPORT FACT SHEET

Institution: Atlantic Bank

Location: Ocean City, Maryland

DSBB ID No.: 05241268

Report Type: Consumer Affairs

Examiner in Charge: Kia B. Strangways

Examination/Inspection began: 9-22-97

Examination/Inspection closed: 11-3-97

Financial Statements as of: 6-30-97

Examination/Inspection data as of: 9-22-97

Examination joint with: N/A

Draft report released by examiner: 10-21-97

Component ratings: LS-HS-HS

Composite ratings: Compliance - 1/CRA - Satisfactory

FR410 - Contents-CONSUMER AFFAIRS-11/89(R)

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Date of Previous Examination: February 5, 1996

SCOPE, SUMMARY, AND RECOMMENDATIONS

SCOPE

A regular examination was conducted using the procedures established by the Board of Governors of the Federal Reserve System to determine the bank's level of compliance with the consumer laws and regulations listed on the contents page. The examination consisted of a review of the bank's policies and procedures with respect to consumer compliance, its forms, and a sample of loan and deposit transactions. A discussion of the findings of this examination was held with Senior Vice President Colleen W. Bunting.

An assessment was also made of the bank's record of performance in helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the bank, as required by the Community Reinvestment Act. The assessment was based on statements made by bank management and staff, minutes of the board of directors' meetings, various other bank records, and a discussion with a representative from an economic development organization.

SUMMARY

The overall level of compliance with consumer and civil rights laws and regulations is considered good. This report discusses a violation of Regulation Z of the Board of Governors of the Federal Reserve System. This deficiency resulted from inaccurate disclosures for home equity lines of credit. This violation was corrected by management during the examination. A nonsubstantive and isolated violation is also noted in the report and was discussed with management.

Overall, the bank has a satisfactory record of meeting the requirements of the Community Reinvestment Act (CRA). An assessment of the bank's record of performance in helping to meet the credit needs of its community and recommendations concerning its CRA program are discussed below and on pages 3.

RECOMMENDATIONS

Management is encouraged to maintain its effective compliance program.

Continuation of the bank's efforts to incorporate the intent of CRA into its planning and operations is encouraged.

RATINGS

A consumer compliance rating of "1" is assigned. An institution in this category is in a strong compliance position.

A CRA rating of "Satisfactory" is assigned. An institution in this group has a satisfactory record of helping to meet the credit needs of its entire assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

The contents of this report are considered confidential and should not be disclosed.

Richmond

Kecia B. Strangways
Examiner, Federal Reserve Bank of

By: _____
John N. Weiss, Assistant Vice President

FINDINGS

I. Violations Subject to the Truth in Lending Policy Guide and/or the Policy Statement of Enforcement of the Equal Credit Opportunity and Fair Housing Acts

None noted.

II. Systemic Violations Resulting from Incorrect Procedures

REGULATION Z - TRUTH IN LENDING

Twenty-one instalment and six real estate loan disclosures made during the month of August 1997 and five open-end disclosures were reviewed. Two disclosures (6%) contained errors. A deficiency was noted involving home equity lines of credit.

Home Equity Line of Credit - Application Disclosure

226.5b(d)(5)(iii)

The bank offers a line of credit secured by a consumer's dwelling and provides required disclosures detailing the terms of the credit plan at the time of application. Included in these disclosures is a required example, based on a \$10,000 balance and a recent annual percentage rate, showing the minimum periodic payment, the balloon payment, and the time it would take to repay the balance if the consumer made only those payments and obtained no additional credit extensions. The example disclosed an erroneous balloon payment due to a miscalculation involving the number of payments. Management corrected the disclosures during the examination.

III. Nonsubstantive and Isolated Violations

The number of occurrences of each violation appears in parentheses following the comment; full details of the infractions were provided to management.

Regulation Z

226.18(c)(1)(iii)

Itemization of amount financed did not reflect the actual amount financed provided in the Truth-in-Lending disclosure (1)

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each Federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institutions record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institutions record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of Atlantic Bank, Ocean City, Maryland, prepared by The Federal Reserve Bank of Richmond, the institutions supervisory agency, as of September 22, 1997. The agency evaluates performance in the assessment area as delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all, of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A of 12 CFR Part 228.

INSTITUTIONS CRA RATING: This institution is rated Satisfactory.

Atlantic Bank primarily serves its assessment area through direct lending and offers a variety of credit products. A substantial majority of the banks loans were extended within the assessment area, and the geographic distribution of loans is considered reasonable. Furthermore, the institutions lending to low- and moderate-income individuals and to businesses with gross annual revenues of less than \$1 million meets expected performance standards in relation to area demographics. Participation in qualified community development investments has been appropriate. Delivery systems and branch locations are considered readily accessible, and participation in community development services is considered reasonable.

The following table indicates the performance level of Atlantic Bank with respect to the lending, investment, and service tests.

<div> <div>PERFORMANCE</div> <div>Atlantic Bank</div> </div>			
LEVELS	PERFORMANCE TESTS		
	LENDING TEST *	INVESTMENT TEST	SERVICE TEST
Outstanding			
High Satisfactory		X	X
Low Satisfactory	X		
Needs to Improve			
Substantial Noncompliance			

* The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

DESCRIPTION OF INSTITUTION:

Atlantic Bank operates five offices throughout Wicomico and Worcester Counties, Maryland. The bank's main office is situated in Ocean City, within Worcester County.

The institution is a subsidiary of First Virginia Banks, Inc., a multibank holding company located in Falls Church, Virginia. In April 1997, a new branch was opened within the Wal-Mart store in Pocomoke City, Maryland; no offices have been closed since the previous evaluation. As of June 30, 1997, the bank had \$57 million in assets, of which 64% were loans. The loan portfolio as of this date was comprised of 71% real estate secured (including consumer and business), 22% consumer, and 7% commercial/agricultural. The bank's previous CRA rating was satisfactory.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:**LENDING TEST**

The bank primarily serves its assessment area through direct lending and offers a variety of credit products. During the six-quarter period ending June 1997, the quarterly average loan-to-deposit ratio for institutions headquartered in nonmetropolitan areas of Maryland and of similar asset size to Atlantic Bank ranged from 76% to 79%. The bank's average loan-to-deposit ratio for the previous six quarters is 70% and is considered reasonable given the institution's size, location, and financial capacity.

As identified in the CRA Public File, a full range of credit products is offered including loans for small business, commercial, consumer, residential mortgage, home improvement, residential construction, and agricultural purposes. Long term mortgages and Government sponsored loans are offered through First Virginia Mortgage Company and First General Mortgage Company. The following chart depicts the bank's lending activity since January 1, 1996, by number, dollar amount, and percentage for the types of products listed. The table also includes affiliate lending activity within the assessment area.

Atlantic Bank Loan Originations 1-1-96 to 6-30-97				
Description	Total Number of Loans	Percentage of Lending	Total Dollar Amount (000s)	Percentage of Lending
Small Business/ Small Farm*	140	23%	\$7,139	41%
Home Equity	25	4%	\$450	3%
Motor Vehicle	258	42%	\$3,952	23%
Other Consumer Secured	110	18%	\$1,766	10%
Other Consumer Unsecured	23	3%	\$80	<1%
Mortgage	59	10%	\$3,990	23%
Totals	615	100%	\$17,377	100%

* Information about these loans is required to be collected by the institution

Exclusive of mortgage loans, the majority of originations (67%) was for consumer purposes. Business credit also represents a significant portion of the bank's lending activity. A large portion of the dollar volume of loans (41%) was for business or farm purposes.

The institution's volume of lending inside and outside its assessment area from January 1, 1996, to June 30, 1997, is represented by the following table by number and dollar amounts. Affiliate lending is not included in this analysis.

Comparison of Credit Extended Inside and Outside the Assessment Area

	Small Business/Farm*		Consumer		Mortgage		Total	
	Inside	Outside	Inside	Outside	Inside	Outside	Inside	Outside
Number of Loans	108	24	189	49	19	1	316	74
Percentage of Loans	82%	18%	79%	21%	95%	5%	81%	19%
Amount of Loans (000's)	\$5,447	\$1,745	\$2,656	\$619	\$586	\$14	\$8,689	\$2,378
Percentage of Amount	76%	24%	81%	19%	98%	2%	79%	21%

* Information about these loans is required to be collected by the institution.

As depicted above, a majority of the number (81%) and dollar amounts (79%) of total loans have been provided to area residents. The percentage of loans made within the assessment area is considered responsive to community credit needs.

The geographic distribution of loans is discussed in detail later in this evaluation.

While the percentage of lending to borrowers residing in low- and moderate-income areas is low when compared to the population residing in such areas, the overall penetration of lending is considered reasonable given local economic conditions and the size and location of the bank. The bank's lending to low- and moderate-income individuals and businesses with revenues less than \$1 million meets expected performance standards in relation to area demographics. In addition, the institution has demonstrated a responsiveness to the credit needs of its market area through some product flexibility.

The overall rating of the institution under the lending test is low satisfactory.

INVESTMENT TEST

The institution's level of responding to community development needs through its investment activities is rated high satisfactory and is consistent with its resources and local opportunities. A qualified investment in a state-issued bond promoting affordable housing was noted, as were several qualified donations.

SERVICE TEST

The overall rating of the institution under the service test is high satisfactory. Delivery systems, branch locations, and the hours of operation are considered readily accessible and convenient to all portions of the assessment area. The bank's participation in community development services is considered reasonable.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS AND REGULATIONS

No credit practices inconsistent with the substantive provisions of the fair housing and fair lending laws and regulations were identified. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending activities.

NONMETROPOLITAN STATEWIDE AREAS

(if some or all of the assessment area within the nonmetropolitan statewide area were reviewed using the examination procedures)

DESCRIPTION OF THE INSTITUTIONS PERFORMANCE IN WICOMICO/WORCESTER COUNTIES ASSESSMENT AREA:**DESCRIPTION OF ASSESSMENT AREA:**

The bank's assessment area includes all of Wicomico and Worcester Counties, Maryland.

According to 1990 census data, the assessment area has a population of 109,367 residents. The two counties contain a total of 39 census tracts and BNAs of which four are low-income, five are moderate-income, 24 are middle-income, and six are upper-income. The median housing value for the market area is approximately \$73,386 and is slightly lower than the nonmetropolitan Maryland value of \$82,261. The owner-occupancy rate for the market is 39%, as compared to the nonmetropolitan state rate of 52%. The 1997 median family income for nonmetropolitan areas of Maryland is \$43,100.

The following table provides demographics for the assessment area by the income level of families and the percentage of the population residing in census tracts or BNAs of varying income levels.

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Percentage of Area Families by Income Level	20%	18%	24%	38%	100%
Percentage of Population Residing in Census Tracts by Income Level of Tract	2%	15%	69%	14%	100%

Wicomico and Worcester Counties are located on Maryland's lower eastern shore. The counties are predominantly rural; however, the Atlantic resort of Ocean City has a significant impact on the economy of Worcester County. Accordingly, tourism is considered the largest industry in the area. Sixty-eight percent of the year-round assessment area population resides in Wicomico County where employment opportunities include poultry processing, manufacturing, and retail trade. As of August 1997, unemployment rates for Wicomico and Worcester Counties were 4.7% and 3.5%, respectively, and are comparable to the statewide jobless rate of 4.3%.

A community contact was made with a representative from a local economic development organization during the examination to further assist in evaluating the bank's CRA performance. The contact indicated that local banks are adequately meeting the credit needs of the market area.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN WICOMICO/WORCESTER COUNTIES
ASSESSMENT AREA:**

LENDING TEST

Geographic Distribution of Loans

The geographic distribution of loans is reflected in the following tables. The tables represent the institutions lending within the assessment area according to the income level of the tract or BNA. Affiliate lending within the assessment area is also represented in the tables.

Distribution of Small Business/Farm Loans* by Income Level of Census Tract or BNA

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Loans	1	6	92	17	116
Percentage of Total Loans	1%	5%	79%	15%	100%
Total Amount of Loans (000's)	\$12	\$276	\$4,236	\$1,066	\$5,590
Percentage of Total Loans	< 1%	5%	76%	19%	100%

* Information about these loans is required to be collected by the institution.

No small farm loans have been originated within the institutions assessment area since the previous evaluation.

Distribution of Consumer Loans by Income Level of Census Tract or BNA

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Loans	2	27	305	50	384
Percentage of Total Loans	1%	7%	79%	13%	100%
Total Amount of Loans (000's)	\$39	\$354	\$4,650	\$746	\$5,789
Percentage of Total Loans	1%	6%	80%	13%	100%

Distribution of Mortgage Loans by Income Level of Census Tract or BNA

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Loans	0	2	45	11	58
Percentage of Total Loans	0%	3%	78%	19%	100%
Total Amount of Loans (000's)	\$0	\$147	\$3,213	\$617	\$3,977
Percentage of Total Loans	0%	4%	81%	15%	100%

Seven percent (38/558) of the total loans originated within the assessment area were extended in low- and moderate-income census tracts or BNAs. This level of lending is low when compared to percentage of the population residing in low- and moderate-income areas (17%). Due to the seasonal nature of the area, the percentage of owner-occupied housing units in the assessment is relatively low (39%), and the majority of these units (89%) is located within middle- and upper-income census tracts or BNAs. These factors may contribute to the low percentage of real estate lending within low- and moderate-income areas.

Since the previous evaluation, the bank has opened a branch office in a moderate-income BNA. As a result, lending activity within low- and moderate-income areas increased during the first half of 1997 with approximately 10% of the institutions lending extended to businesses or consumers residing within low- and moderate-income areas. Given these factors, along with the size and location of the institution, the bank's overall loan distribution appears reasonable.

Borrower's Profile

The following charts reflect the distribution of consumer, affiliate mortgage, and business/farm loans extended within the assessment area by income level of the borrower or to businesses of different sizes from January 1, 1996, through June 30, 1997. Borrower income was not provided for the bank's mortgage loans; therefore, only affiliate mortgage loans are included in the analysis.

Distribution of Consumer Loans by Income Level of Borrower

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Loans	75	67	97	134	373
Percentage of Total Loans	20%	18%	26%	36%	100%
Total Amount of Loans (000's)	\$1,018	\$800	\$1,290	\$2,570	\$5,678
Percentage of Total Amount	18%	14%	23%	45%	100%

Distribution of Mortgage Loans by Income Level of Borrower*

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Total Number of Loans	2	7	5	24	38
Percentage of Total Loans	5%	19%	13%	63%	100%
Total Amount of Loans (000's)	\$112	\$378	\$453	\$2,397	\$3,340
Percentage of Total Amount	3%	11%	14%	72%	100%

As illustrated above, the percentage of consumer loans (38%) to low- and moderate-income borrowers matches the percentage of such families (38%) residing within the assessment area. The percentage of mortgage lending to low- and moderate-income borrowers (24%) is less than the demographic proportion of such families. As previously mentioned, the majority of homes in the assessment area are not owner-occupied. Due to the seasonal nature of the assessment area, most mortgage loans are extended to higher-income borrowers for the purchase of second homes or investment properties.

Atlantic Bank is an approved FHA Title I Home Improvement lender. This program has less stringent underwriting criteria than traditional financing and requires little or no equity in the property being improved. No loans have been extended under this program since the previous evaluation.

In addition, the bank participates with the Salisbury Neighborhood Housing Service (SNHS), a nonprofit organization that works with local banks to provide below-market-rate loans to qualified borrowers. SNHS has targeted three areas in the City of Salisbury for revitalization and offers low interest loans and reduced closing costs to individuals who purchase a home in one of the these areas. Local banks provide direct funding, and SNHS guarantees a portion of the funds. SNHS also provides home buyers' training classes, post purchase seminars, and leadership training. Since the previous evaluation, two loans have been extended under the program for a total of \$145,000.

Distribution of Lending by Loan Amount and Size of Business or Farm*

	\$0 - \$100,000		>\$100,000 - \$250,000		>\$250,000		Total	
Total Revenues \leq \$1 Million	71	69%	6	6%	0	0%	77	75%
Total Revenues > \$1 Million	18	17%	7	7%	1	1%	26	25%
Total	89	86%	13	13%	1	1%	103	100%

* Information about these loans is required to be collected by the institution.

As depicted in the table, 75% (77/103) of the small business (loans ≤ \$1 million) loans in the assessment area were provided to businesses with gross annual revenues of less than \$1 million. Furthermore, 69% of the 103 small business loans were to borrowers with revenues not exceeding \$1 million and for an amount of \$100,000 or less. As previously mentioned, no small farm loans have been extended within the institutions assessment area since the previous evaluation. This level of lending demonstrates the banks willingness to meet the credit needs of local small businesses.

The bank continues to offer Small Business Administration (SBA) loans to qualifying enterprises. Since the previous evaluation, five SBA loans totaling \$457,000 have been extended to local businesses. In addition, the bank offers flexible payment programs for its business customers. Because of the extreme seasonality of the area, the majority of local businesses derive nearly all operating income during the summer months. Atlantic Bank offers a payment structure that allows such businesses to pay only interest during the off season and make principal payments during the peak summer months.

Given the product lines offered by the institution and its affiliates, the distribution to borrowers of different incomes and to businesses of different sizes is considered favorable and demonstrates the banks willingness to meet the credit needs of all segments of its community.

Community Development Loans

To the extent the bank has originated any community development loans, such financing has been reported as small business loans.

INVESTMENT TEST

The bank has invested \$20,000 in Maryland State Housing Bonds, which are the primary source of funding for the Maryland Department of Housing and Community Development. The organization was established to provide affordable housing to low-income families of Maryland.

In addition, Atlantic Bank has donated funds to SNHS as part of a five-year pledge to help defray administrative costs of the organization. The bank has also provided other donations totaling \$1,933 to various community service organizations. The institutions level of qualified investments is considered reasonable.

SERVICE TEST

Accessibility of Delivery Systems

Delivery systems are accessible to all portions of the assessment area. Four of the five branches are equipped with Automated Teller Machines (ATMs) which provide local residents with 24-hour nationwide network access. Telephone and mail banking services are also available and provide customers with 24-hour accessibility.

Branch Locations and Hours of Operation

The branch locations and business hours are considered convenient and meet the needs of the assessment area. Hours of operation include Saturday lobby hours at one branch and, on a seasonal basis, at two other branches. Also, the four offices equipped with drive-through windows provide Saturday drive-through hours. While no branches have been closed since the previous evaluation, a branch closing policy has been adopted as required by the Federal Deposit Insurance Corporation Improvement Act of 1991. As previously mentioned, one office has been opened since the previous evaluation. The new office is open on Sundays until 6:00 p.m. and Monday through Friday until 8:00 p.m. providing the local community with accessible banking services.

Community Development Services

The institution is involved with a variety of community development services. Atlantic Bank participates in the Maryland Interest on Lawyers' Trust Accounts (IOLTA) program which assists in funding legal services for the poor and disadvantaged. The bank also offers free checking to senior citizens and college students.

The bank participates in the Worcester County Bankers' Group, an association of seven area banks committed to identifying unmet credit needs for low- and moderate-income residents of Worcester County. The group has proposed a housing rehabilitation loan program which will assist borrowers of certain income criteria to obtain below-market-rate loans for the purposes of home improvement.

A vice president of the bank serves on the SNHS committee and conducts home buyer training classes using bank premises as the classroom location. A member of bank management serves on the board of Northern Worcester County Habitat for Humanity. The institution's provision of community development services is considered reasonable.

CONFIDENTIAL

COMMUNITY REINVESTMENT ACT

RATING: Satisfactory

ASSESSMENT

The bank's overall record of helping to meet the credit needs of its community is considered satisfactory. Management appears informed of the recent changes to Regulation BB and has appropriately implemented required data collection processes. The board of directors and bank officers are encouraged to continue their efforts to incorporate the intent of CRA into planning and operations.

OUTSIDE CONTACTS

Mr. Brian W. Davis, First Vice President of the Downtown Association, was contacted during the examination to discuss the local economy and community credit needs. The Downtown Association is a local nonprofit organization. The purpose of the organization is to revitalize and rehabilitate the downtown business area of Ocean City, Maryland.

Mr. Davis stated that the local economy is relatively stable and improving mainly because more part-time summer business merchants are making Ocean City their permanent residence. The city's primary source of revenue, however, is still obtained by tourism during the summer months. Although economic conditions are strengthening, local real estate values have flattened recently after tremendous growth in the 1970's and 1980's. Mr. Davis attributed the stagnant real estate market to the 1986 Tax Reform Act which greatly impacted real estate investment. More stringent zoning requirements recently implemented have also negatively affected real estate values.

Mr. Davis indicated that the future goal of the association is to establish Ocean City as a year-round resort area. Currently, there are about 8,000 full-time residents of the city; however, during the peak summer season, Ocean City's population escalates to as high as 325,000 people. Local businesses and economic community leaders are currently discussing the possibility of building an aquarium and an IMAX movie theater in the downtown area. He emphasized that these two attractions would greatly enhance the city's image as a year-round resort area and possibly attract a more affluent clientele. He cited the success of the aquarium and theater in facilitating the City of Baltimore's revitalization of its Inner Harbor area.

The contact stated that local banks have been adequately meeting the credit needs of the community. He added that the downtown area would benefit from a pool of low interest funds for the purpose of rehabilitating local motels, condominiums and businesses. Local banks are currently providing rehabilitation and improvement loans, but on an individual basis and at market interest rates.

Mr. Davis was not aware of any discriminatory practices by local financial institutions.

CONFIDENTIAL

Compliance Rating: 1

The overall level of compliance with consumer and civil rights laws and regulations is considered good. This report discusses a violation of Regulation Z of the Board of Governors of the Federal Reserve System. This deficiency resulted from inaccurate disclosures for home equity lines of credit. This violation was corrected by management during the examination. A nonsubstantive and isolated violation is noted in the report and was discussed with management.

Compliance Officer Donna M. Savko continues to be responsible for the bank's day-to-day compliance program. She is assisted in her efforts by President and Chief Executive Officer John P. Charrier, Jr., and Senior Vice President Bunting. Bank officers regularly attend and conduct training sessions on consumer laws and regulations. Corporate compliance issues, as well as audit and legal functions, are addressed by the bank's parent holding company, First Virginia Banks, Inc. Based on management's positive attitude toward compliance along with support from the holding company, prospects for future compliance appear favorable.

Richmond

Kecia B. Strangways
Examiner, Federal Reserve Bank of

Examiners participating in examination:

T. G. Eldreth
D. H. Evans
D. T. Hart
R. S. Reagan
I. L. Revit
S. Z. Robinson
R. T. Williams

Number of offices: 5

The error frequency rate for Truth in Lending disclosures reviewed is 13%.

**FEDERAL RESERVE SYSTEM
COMMUNITY CONTACT FORM**

The purpose of this Form is to provide a consistent means by which financial institutions' regulatory agencies can report information obtained through interviews with community contacts regarding local economic conditions, the types of credit required by communities to grow and prosper, whether those types of credit are furnished by local financial institutions and whether credit is provided to individuals whose incomes range from low to moderate. The Form will provide a means with which to assist supervisory agencies in assessing the performance of a financial institution in helping to meet the credit needs of its community. The individual conducting the interview should inform the interviewee that this information will be shared with other regulatory agencies. The agencies having supervisory authority over State member banks, nonmember banks, national banks, or savings associations shall complete the Community Contact Form whenever such an interview is conducted. Agencies should use care in filling out the Form and should insure that it is as complete as practicable under the circumstances. The completed Form should then be distributed to the designated individual at the regional or district office of each agency having examination authority over the area in which the interview was conducted.

1. District/Regional Office: Richmond
Regulatory Agency: Federal Reserve Bank
2. Institution Examined: Atlantic Bank
Ocean City, Maryland
3. Date of contact: October 1, 1997
4. Organization contacted: Downtown Association

Telephone: (410) 289-2629 Address: 1101 Philadelphia Avenue
Ocean City, Maryland 21842
5. Type of organization contacted: Economic Development Organization
6. First contact X Repeat contact
7. Personal contact X Phone contact
8. Name and title of primary person contacted: Mr. Brian W. Davis,
First Vice President

Names and titles of other persons contacted: N/A

History of contact's involvement in community reinvestment, if applicable:

Mr. Davis has been with Downtown Association for several years and has also served as president of the organization. He is a Realtor and year-round resident of Ocean City. Mr. Davis also owns several rental properties.

9. Describe information-gathering efforts made and communication channels established by the organization from which it derives information on community credit needs.

The Downtown Association members maintain routine contact with various local public officials, community organizations, and real estate owners.

10. Duration of interview: One hour
(Specify length of time in hourly increments.)

11. Political or geographic boundaries of area served by the organization.
(Indicate whether the organization serves a city, county, or Statewide area, or if rurally located, the geographic definition of that area).

The organization serves Ocean City, Maryland.

12. Description of the organization's purposes and functions and, if possible, its sources of funding. (Attach any literature, if available.)

The Downtown Association is a local nonprofit organization consisting of a collective group of local business merchants, property owners, and residents. The objectives of the association are the rehabilitation and conservation of the downtown area of Ocean City. The Downtown Association operates a visitors center during summer months, organizes and promotes various civic events, and arranges housing for temporary summer residents. Members also consult with the numerous merchants and hotel operators to obtain feedback and devise ideas for making Ocean City a year-round resort area. Funding sources include membership dues and revenues raised from the promotion and operation of events during the tourist season.

13. Person in charge of examination: Kia B. Strangways

Interviewer: Kia B. Strangways

14. Summary of interview:

Mr. Brian W. Davis, First Vice President of the Downtown Association, was contacted during the examination to discuss the local economy and community credit needs.

The contact indicated that the local economy is relatively stable and improving mainly because more part-time summer business merchants are making Ocean City their permanent residence. The city's primary source of revenue, however, is still obtained by tourism during the summer months. Although economic conditions are strengthening, local real estate values have flattened recently after tremendous growth in the 1970's and 1980's. Mr. Davis attributed the stagnant real estate market to the 1986 Tax Reform Act which greatly impacted real estate investment. More stringent zoning requirements recently implemented have also negatively affected real estate values.

Mr. Davis indicated that the future goal of the association is to establish Ocean City as a year-round resort area. Currently, there are about 8,000 full-time residents of the city; however, during the peak summer season, Ocean City's population escalates to as high as 325,000 people. Local businesses and economic community leaders are currently discussing the possibility of building an aquarium and an IMAX movie theater in the downtown area. He emphasized that these two attractions would greatly enhance the city's image as a year-round resort area and possibly attract a more affluent clientele. He cited the success of the aquarium and theater in facilitating the City of Baltimore's revitalization of its Inner Harbor area.

The contact stated that local banks have been adequately meeting the credit needs of the community. He added that the downtown area would benefit from a pool of low interest funds for the purpose of rehabilitating local motels, condominiums and businesses. Local banks are currently providing rehabilitation and improvement loans, but on an individual basis and at market interest rates.

Mr. Davis was not aware of any discriminatory practices by local financial institutions.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each Federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institutions record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institutions record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of Atlantic Bank, Ocean City, Maryland, prepared by The Federal Reserve Bank of Richmond, the institutions supervisory agency, as of September 22, 1997. The agency evaluates performance in the assessment area as delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all, of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A of 12 CFR Part 228.

INSTITUTIONS CRA RATING: This institution is rated Satisfactory.

Atlantic Bank primarily serves its assessment area through direct lending and offers a variety of credit products. A substantial majority of the banks loans were extended within the assessment area, and the geographic distribution of loans is considered reasonable. Furthermore, the institutions lending to low- and moderate-income individuals and to businesses with gross annual revenues of less than \$1 million meets expected performance standards in relation to area demographics. Participation in qualified community development investments has been appropriate. Delivery systems and branch locations are considered readily accessible, and participation in community development services is considered reasonable.

The following table indicates the performance level of Atlantic Bank with respect to the lending, investment, and service tests.

<div> <div>PERFORMANCE</div> <div>Atlantic Bank</div> </div>			
LEVELS	PERFORMANCE TESTS		
	LENDING TEST *	INVESTMENT TEST	SERVICE TEST
Outstanding			
High Satisfactory		X	X
Low Satisfactory	X		
Needs to Improve			
Substantial Noncompliance			

* The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

DESCRIPTION OF INSTITUTION:

Atlantic Bank operates five offices throughout Wicomico and Worcester Counties, Maryland. The bank's main office is situated in Ocean City, within Worcester County.

The institution is a subsidiary of First Virginia Banks, Inc., a multibank holding company located in Falls Church, Virginia. In April 1997, a new branch was opened within the Wal-Mart store in Pocomoke City, Maryland; no offices have been closed since the previous evaluation. As of June 30, 1997, the bank had \$57 million in assets, of which 64% were loans. The loan portfolio as of this date was comprised of 71% real estate secured (including consumer and business), 22% consumer, and 7% commercial/agricultural. The bank's previous CRA rating was satisfactory.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:**LENDING TEST**

The bank primarily serves its assessment area through direct lending and offers a variety of credit products. During the six-quarter period ending June 1997, the quarterly average loan-to-deposit ratio for institutions headquartered in nonmetropolitan areas of Maryland and of similar asset size to Atlantic Bank ranged from 76% to 79%. The bank's average loan-to-deposit ratio for the previous six quarters is 70% and is considered reasonable given the institution's size, location, and financial capacity.

As identified in the CRA Public File, a full range of credit products is offered including loans for small business, commercial, consumer, residential mortgage, home improvement, residential construction, and agricultural purposes. Long term mortgages and Government sponsored loans are offered through First Virginia Mortgage Company and First General Mortgage Company. The following chart depicts the bank's lending activity since January 1, 1996, by number, dollar amount, and percentage for the types of products listed. The table also includes affiliate lending activity within the assessment area.

Atlantic Bank Loan Originations 1-1-96 to 6-30-97				
Description	Total Number of Loans	Percentage of Lending	Total Dollar Amount (000s)	Percentage of Lending
Small Business/ Small Farm*	140	23%	\$7,139	41%
Home Equity	25	4%	\$450	3%
Motor Vehicle	258	42%	\$3,952	23%
Other Consumer Secured	110	18%	\$1,766	10%
Other Consumer Unsecured	23	3%	\$80	<1%
Mortgage	59	10%	\$3,990	23%
Totals	615	100%	\$17,377	100%

* Information about these loans is required to be collected by the institution

Exclusive of mortgage loans, the majority of originations (67%) was for consumer purposes. Business credit also represents a significant portion of the bank's lending activity. A large portion of the dollar volume of loans (41%) was for business or farm purposes.

The institution's volume of lending inside and outside its assessment area from January 1, 1996, to June 30, 1997, is represented by the following table by number and dollar amounts. Affiliate lending is not included in this analysis.

Comparison of Credit Extended Inside and Outside the Assessment Area

	Small Business/Farm*		Consumer		Mortgage		Total	
	Inside	Outside	Inside	Outside	Inside	Outside	Inside	Outside
Number of Loans	108	24	189	49	19	1	316	74
Percentage of Loans	82%	18%	79%	21%	95%	5%	81%	19%
Amount of Loans (000's)	\$5,447	\$1,745	\$2,656	\$619	\$586	\$14	\$8,689	\$2,378
Percentage of Amount	76%	24%	81%	19%	98%	2%	79%	21%

* Information about these loans is required to be collected by the institution.

As depicted above, a majority of the number (81%) and dollar amounts (79%) of total loans have been provided to area residents. The percentage of loans made within the assessment area is considered responsive to community credit needs.

The geographic distribution of loans is discussed in detail later in this evaluation.

While the percentage of lending to borrowers residing in low- and moderate-income areas is low when compared to the population residing in such areas, the overall penetration of lending is considered reasonable given local economic conditions and the size and location of the bank. The bank's lending to low- and moderate-income individuals and businesses with revenues less than \$1 million meets expected performance standards in relation to area demographics. In addition, the institution has demonstrated a responsiveness to the credit needs of its market area through some product flexibility.

The overall rating of the institution under the lending test is low satisfactory.

INVESTMENT TEST

The institution's level of responding to community development needs through its investment activities is rated high satisfactory and is consistent with its resources and local opportunities. A qualified investment in a state-issued bond promoting affordable housing was noted, as were several qualified donations.

SERVICE TEST

The overall rating of the institution under the service test is high satisfactory. Delivery systems, branch locations, and the hours of operation are considered readily accessible and convenient to all portions of the assessment area. The bank's participation in community development services is considered reasonable.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS AND REGULATIONS

No credit practices inconsistent with the substantive provisions of the fair housing and fair lending laws and regulations were identified. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending activities.

NONMETROPOLITAN STATEWIDE AREAS

(if some or all of the assessment area within the nonmetropolitan statewide area were reviewed using the examination procedures)

DESCRIPTION OF THE INSTITUTIONS PERFORMANCE IN WICOMICO/WORCESTER COUNTIES ASSESSMENT AREA:

DESCRIPTION OF ASSESSMENT AREA:

The bank's assessment area includes all of Wicomico and Worcester Counties, Maryland.

According to 1990 census data, the assessment area has a population of 109,367 residents. The two counties contain a total of 39 census tracts and BNAs of which four are low-income, five are moderate-income, 24 are middle-income, and six are upper-income. The median housing value for the market area is approximately \$73,386 and is slightly lower than the nonmetropolitan Maryland value of \$82,261. The owner-occupancy rate for the market is 39%, as compared to the nonmetropolitan state rate of 52%. The 1997 median family income for nonmetropolitan areas of Maryland is \$43,100.

The following table provides demographics for the assessment area by the income level of families and the percentage of the population residing in census tracts or BNAs of varying income levels.

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Percentage of Area Families by Income Level	20%	18%	24%	38%	100%
Percentage of Population Residing in Census Tracts by Income Level of Tract	2%	15%	69%	14%	100%

Wicomico and Worcester Counties are located on Maryland's lower eastern shore. The counties are predominantly rural; however, the Atlantic resort of Ocean City has a significant impact on the economy of Worcester County. Accordingly, tourism is considered the largest industry in the area. Sixty-eight percent of the year-round assessment area population resides in Wicomico County where employment opportunities include poultry processing, manufacturing, and retail trade. As of August 1997, unemployment rates for Wicomico and Worcester Counties were 4.7% and 3.5%, respectively, and are comparable to the statewide jobless rate of 4.3%.

A community contact was made with a representative from a local economic development organization during the examination to further assist in evaluating the bank's CRA performance. The contact indicated that local banks are adequately meeting the credit needs of the market area.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN WICOMICO/WORCESTER COUNTIES
ASSESSMENT AREA:**

LENDING TEST

Geographic Distribution of Loans

The geographic distribution of loans is reflected in the following tables. The tables represent the institutions lending within the assessment area according to the income level of the tract or BNA. Affiliate lending within the assessment area is also represented in the tables.

Distribution of Small Business/Farm Loans* by Income Level of Census Tract or BNA

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Loans	1	6	92	17	116
Percentage of Total Loans	1%	5%	79%	15%	100%
Total Amount of Loans (000's)	\$12	\$276	\$4,236	\$1,066	\$5,590
Percentage of Total Loans	< 1%	5%	76%	19%	100%

* Information about these loans is required to be collected by the institution.

No small farm loans have been originated within the institutions assessment area since the previous evaluation.

Distribution of Consumer Loans by Income Level of Census Tract or BNA

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Loans	2	27	305	50	384
Percentage of Total Loans	1%	7%	79%	13%	100%
Total Amount of Loans (000's)	\$39	\$354	\$4,650	\$746	\$5,789
Percentage of Total Loans	1%	6%	80%	13%	100%

Distribution of Mortgage Loans by Income Level of Census Tract or BNA

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Loans	0	2	45	11	58
Percentage of Total Loans	0%	3%	78%	19%	100%
Total Amount of Loans (000's)	\$0	\$147	\$3,213	\$617	\$3,977
Percentage of Total Loans	0%	4%	81%	15%	100%

Seven percent (38/558) of the total loans originated within the assessment area were extended in low- and moderate-income census tracts or BNAs. This level of lending is low when compared to percentage of the population residing in low- and moderate-income areas (17%). Due to the seasonal nature of the area, the percentage of owner-occupied housing units in the assessment is relatively low (39%), and the majority of these units (89%) is located within middle- and upper-income census tracts or BNAs. These factors may contribute to the low percentage of real estate lending within low- and moderate-income areas.

Since the previous evaluation, the bank has opened a branch office in a moderate-income BNA. As a result, lending activity within low- and moderate-income areas increased during the first half of 1997 with approximately 10% of the institutions lending extended to businesses or consumers residing within low- and moderate-income areas. Given these factors, along with the size and location of the institution, the bank's overall loan distribution appears reasonable.

Borrower's Profile

The following charts reflect the distribution of consumer, affiliate mortgage, and business/farm loans extended within the assessment area by income level of the borrower or to businesses of different sizes from January 1, 1996, through June 30, 1997. Borrower income was not provided for the bank's mortgage loans; therefore, only affiliate mortgage loans are included in the analysis.

Distribution of Consumer Loans by Income Level of Borrower

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Loans	75	67	97	134	373
Percentage of Total Loans	20%	18%	26%	36%	100%
Total Amount of Loans (000's)	\$1,018	\$800	\$1,290	\$2,570	\$5,678
Percentage of Total Amount	18%	14%	23%	45%	100%

Distribution of Mortgage Loans by Income Level of Borrower*

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Loans	2	7	5	24	38
Percentage of Total Loans	5%	19%	13%	63%	100%
Total Amount of Loans (000's)	\$112	\$378	\$453	\$2,397	\$3,340
Percentage of Total Amount	3%	11%	14%	72%	100%

As illustrated above, the percentage of consumer loans (38%) to low- and moderate-income borrowers matches the percentage of such families (38%) residing within the assessment area. The percentage of mortgage lending to low- and moderate-income borrowers (24%) is less than the demographic proportion of such families. As previously mentioned, the majority of homes in the assessment area are not owner-occupied. Due to the seasonal nature of the assessment area, most mortgage loans are extended to higher-income borrowers for the purchase of second homes or investment properties.

Atlantic Bank is an approved FHA Title I Home Improvement lender. This program has less stringent underwriting criteria than traditional financing and requires little or no equity in the property being improved. No loans have been extended under this program since the previous evaluation.

In addition, the bank participates with the Salisbury Neighborhood Housing Service (SNHS), a nonprofit organization that works with local banks to provide below-market-rate loans to qualified borrowers. SNHS has targeted three areas in the City of Salisbury for revitalization and offers low interest loans and reduced closing costs to individuals who purchase a home in one of the these areas. Local banks provide direct funding, and SNHS guarantees a portion of the funds. SNHS also provides home buyers' training classes, post purchase seminars, and leadership training. Since the previous evaluation, two loans have been extended under the program for a total of \$145,000.

Distribution of Lending by Loan Amount and Size of Business or Farm

	\$0 - \$100,000		>\$100,000 - \$250,000		>\$250,000		Total	
Total Revenues ≤ \$1 Million	71	69%	6	6%	0	0%	77	75%
Total Revenues > \$1 Million	18	17%	7	7%	1	1%	26	25%
Total	89	86%	13	13%	1	1%	103	100%

* Information about these loans is required to be collected by the institution.

As depicted in the table, 75% (77/103) of the small business (loans ≤ \$1 million) loans in the assessment area were provided to businesses with gross annual revenues of less than \$1 million. Furthermore, 69% of the 103 small business loans were to borrowers with revenues not exceeding \$1 million and for an amount of \$100,000 or less. As previously mentioned, no small farm loans have been extended within the institutions assessment area since the previous evaluation. This level of lending demonstrates the banks willingness to meet the credit needs of local small businesses.

The bank continues to offer Small Business Administration (SBA) loans to qualifying enterprises. Since the previous evaluation, five SBA loans totaling \$457,000 have been extended to local businesses. In addition, the bank offers flexible payment programs for its business customers. Because of the extreme seasonality of the area, the majority of local businesses derive nearly all operating income during the summer months. Atlantic Bank offers a payment structure that allows such businesses to pay only interest during the off season and make principal payments during the peak summer months.

Given the product lines offered by the institution and its affiliates, the distribution to borrowers of different incomes and to businesses of different sizes is considered favorable and demonstrates the banks willingness to meet the credit needs of all segments of its community.

Community Development Loans

To the extent the bank has originated any community development loans, such financing has been reported as small business loans.

INVESTMENT TEST

The bank has invested \$20,000 in Maryland State Housing Bonds, which are the primary source of funding for the Maryland Department of Housing and Community Development. The organization was established to provide affordable housing to low-income families of Maryland.

In addition, Atlantic Bank has donated funds to SNHS as part of a five-year pledge to help defray administrative costs of the organization. The bank has also provided other donations totaling \$1,933 to various community service organizations. The institutions level of qualified investments is considered reasonable.

SERVICE TEST

Accessibility of Delivery Systems

Delivery systems are accessible to all portions of the assessment area. Four of the five branches are equipped with Automated Teller Machines (ATMs) which provide local residents with 24-hour nationwide network access. Telephone and mail banking services are also available and provide customers with 24-hour accessibility.

Branch Locations and Hours of Operation

The branch locations and business hours are considered convenient and meet the needs of the assessment area. Hours of operation include Saturday lobby hours at one branch and, on a seasonal basis, at two other branches. Also, the four offices equipped with drive-through windows provide Saturday drive-through hours. While no branches have been closed since the previous evaluation, a branch closing policy has been adopted as required by the Federal Deposit Insurance Corporation Improvement Act of 1991. As previously mentioned, one office has been opened since the previous evaluation. The new office is open on Sundays until 6:00 p.m. and Monday through Friday until 8:00 p.m. providing the local community with accessible banking services.

Community Development Services

The institution is involved with a variety of community development services. Atlantic Bank participates in the Maryland Interest on Lawyers Trust Accounts (IOLTA) program which assists in funding legal services for the poor and disadvantaged. The bank also offers free checking to senior citizens and college students.

The bank participates in the Worcester County Bankers Group, an association of seven area banks committed to identifying unmet credit needs for low- and moderate-income residents of Worcester County. The group has proposed a housing rehabilitation loan program which will assist borrowers of certain income criteria to obtain below-market-rate loans for the purposes of home improvement.

A vice president of the bank serves on the SNHS committee and conducts home buyer training classes using bank premises as the classroom location. A member of bank management serves on the board of Northern Worcester County Habitat for Humanity. The institution's provision of community development services is considered reasonable.